

# COST *and* MANAGEMENT

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THE CANADIAN SOCIETY OF

COST ACCOUNTANTS & INDUSTRIAL ENGINEERS

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at 25 cents each.

# EDITORIAL

## Unity Needed!

Lots of people have been clamouring for some time past for the government to give some lead to the country in order that the people generally may become more war-minded and the answer has been more and more restrictive legislation, as for instance the new Manpower Regulations.

If this does not make the people war conscious, then nothing will, unless it is the money one has to pay for Income Tax just about the time these lines are written.

There is something else needed, however, than simply becoming war-minded, and that something is UNITY. War consciousness in itself will not win the war, but it must be supplemented by a unity of purpose which will make us stretch in order to prosecute the war to the fullest extent regardless of whether we, as individuals, think that the means used are the best that can be used.

There are few men who do not think that they themselves could not, if given the opportunity, cure all the ills of the world, but few indeed know what it is all about.

The point is that we think and act along these lines and, as a result everyone almost has a different idea as to what ought to be done.

We criticize plenty everyone and everything and criticism seems to be our chief stock in trade.

If we would but stop to think a little, sanely, we would realize that this war is no three-ringed circus, that we have not paid for a ring-side seat and are therefore free to call the tune, and yet, isn't that the idea of most of us.

We want to know all the answers, regardless of whether or not such answers would harm the cause for which we are fighting.

We want to know why equipment was not sent in time to Singapore, Java, Burma and Russia all at the same time, why haven't we enough ships to convey all the goods we can send, where is our aircraft, and we even read recently where a member of Parliament even asked a question in the House of Commons wishing to know how many ships Canada and the U.S. were building.

All these things show that we do not fully understand the situation and because we cannot find out the answers we wish to know we begin to criticize.

Most of us, like the Irishman, are "Agin the government" no matter what is done when we would be doing our country and our cause a far greater service if we would put our shoulders to the wheel instead of continually deliberately embarrassing those in authority.

## ACROSS THE SECRETARY'S DESK

This is not intended to imply that there should be no criticism, but criticism without regard to a real knowledge of the facts has become almost a fetish with some of us, and the peculiar thing is that many of those who criticize the most are actually doing the least to really help. The most important task, indeed the only task ahead of us right now is the winning of the war. What matter who assumes the credit for winning it when it is won. The big thing is to pull together in order to win it; if we don't, then we are in danger of losing it, and thereby losing all our right to criticize.

# Across the Secretary's Desk

It has fallen within the lot of this writer since the last issue of "Cost and Management" to visit five of our chapters, and while these visits have entailed in some cases quite a rush, the visits have been enjoyable as they always were.

We started out by visiting the Ottawa Chapter, where we gave a talk on "What are Standard Costs?" and followed it up the following night with a similar talk before the Niagara Chapter, filling in for an absent speaker.

In Ottawa there was a good attendance and an exceptionally fine meeting, but in St. Catharines there was a new low. However, those who were not present missed a very fine meeting.

Matters then arose which necessitated a flying visit to Montreal for a conference with the Montreal members of our Dominion Board. It was good indeed to again see and talk with such old friends as Reg. Louthood, Don Patton, Percy Wright, Eddie Loiselle, Paul Kellogg and Randall Herron, but unfortunately after travelling down to Montreal all day we were compelled to take the night train back because of a meeting in Hamilton the following night with a conference with further members of the Dominion Board. Then the following night to Toronto for another conference, after the regular Toronto meeting.

It is all quite a strain, but the various conferences were conducted in the spirit which permeates our Society and without a discordant note.

The speaker at the last two chapter meetings was our genial Dominion President, and they were both very successful meetings. George handed out some homely truths which did his hearers a lot of good, and those who were not present may be assured that they really missed something.

Only a few meetings remain before the close of the season and then we begin to prepare for yet another.

We have hard tasks ahead of us due to the war, but we can continue to prosper if every member will do his share, and we have every confidence in spite of the times our Society will continue to grow both in numbers and in prestige.

R. D.

# What Are Standard Costs?

By R. DAWSON,

Before Windsor Chapter, January 29th, Ottawa Chapter, March 16th, and  
Niagara Chapter, March 17th, 1942.

The title of this talk is prompted by the oft repeated question, "What Are Standard Costs" and the many and varied answers I have heard to that question. But, before we decide to answer this question, let us attempt to analyze costs generally in order that we may arrive at a reason, if any, for the use of Standard Costs, whenever and wherever such may be of practical value.

There are many definitions of costs so far as manufacturing is concerned and my definition would be: The total cost of material entering directly into the product manufactured, the total of the labour cost in fabricating such material and the various incidental expenses involved which cannot be placed directly on to the product as either direct material or direct labour but concerning which expenses the product should stand its share.

Now Cost Accounting, let me say here, is not an exact science. It is far less so than even General or Financial Accounting. It is true that we have the three elements of cost well defined: Material, Labour and Burden or Overhead, but there are very many different ideas as to what constitutes Overhead and even in industries of a like nature material and labour will be classed as direct in one plant and as indirect in another. Such matters as interest on bonded indebtedness may be classed as a part of cost in one industry and not in another, and so on. However, we are not, at the moment, concerned with an endeavour to make for uniform Cost Accounting, or rather it does not enter into this discussion.

Cost Accounting is not a new science. It is as old as the hills, and Counting the Cost is something each one of us does, or should do. Nevertheless it is only comparatively recently that Cost Accounting attained real importance in industry and even now, or at any rate prior to the outbreak of war, and certainly prior to the last depression Cost Accountants in many industries were looked upon as something akin to a necessary evil, and it was often questioned whether or not they were really necessary.

One reason for this probably rested with Cost Accountants themselves. Too often members of the profession went into masses of detail in an effort to prove costs, made voluminous reports to executives which the latter certainly could not, in many cases, understand, and generally provided a mass of figures which were of use, if at all, only from a historical viewpoint and certainly at too late a date to do very much about any alarming situation which such reports showed.

There was a tendency generally for Cost Accountants to surround themselves with an air of mystery which permeated their work and reports.

However, as Cost Accounting developed, so did the need for reports which the non-accounting executive mind could understand and which would be presented in such time and in such shape that they would show the trend of events in the plant and thus be of inestimable value to busy executives who have not time to go into every little detail long after a thing has happened.

## WHAT ARE STANDARD COSTS

Mechanized Accounting methods did much to speed up cost reports and to change such reports from a mass of detail to simplified reports of what was happening in connection with production and its cost and so evolved a desire on the part of executives for something more than a mere historical report of something that had happened and concerning which little or nothing could be done.

So far as I can learn, the first mention of Standard Costs was made by Harrington Emerson in the year 1908, but Standard Costs attained little prominence for the next ten or twelve years. Accountants generally are a conservative lot, gifted with a sort of Scotch mentality which re-acts at first, slowly and unfavourably to change.

Once the procession started, however, it became a deluge, and Standard Costs were adopted in many instances without real thought as to whether or not the business or methods of manufacture lent itself to such a change.

Kenneth M. Goode, in his book, "How to Turn People Into Gold", I have read somewhere, gives an analysis of human motives and action which can be to a considerably extent to the early mad use of Standard Costs. He claims that man in the mass:

1. Yields to suggestions when properly flattered.
2. Follows his leaders, eyes shut, mouth open, and stands by his friends even when he knows them.
3. Forgets the past and remembers inaccurately.
4. Accepts his beliefs ready made and sticks to them until the cows come home.
5. Dares not differ from the crowd unless certain his differences will be recognized as superiority.
6. Follows a habit until it hurts.
7. Confuses what is done with what should be done.

There is no necessity to go into detail, but those of you old enough to remember the way in which the Standard Cost idea swept like a Prairie fire, the manner in which Accountants followed their leader and forgot their Scotch mentality, regardless of whether or not the Standard Cost idea fitted their business or not, will realize that the rules of human conduct and action mentioned by Mr. Goode had some real foundation in fact.

Nevertheless, in spite of all the misapplication of the theory and practice of Standard Costs, there has evolved through the years a definite acceptance of such theory and practice and Standard Costs have come into their own even though attempts are still made to put them into practice into places where they do not fit.

Moreover, Standard Costs have meant a definite step forward in Cost Accounting, and have brought the Cost Accountant much more to the fore and have recognized him as a definite aid to management.

Now, let us take a look and see just what are Standard Costs:

Standard Costs are simply what you expect the costs will be under a given set of conditions and which conditions you attempt to anticipate.

For instance if material, labour and overhead never changed, the cost would be standard.

The three elements, however, do change, and so we have to anticipate such changes and allow for them, and thus form a standard cost for a certain period.

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There are, of course, several types of standard costs, principally those which are tied in with the general books and those which are not.

Obviously, a cost which is merely an ideal and something to shoot at like shooting at the moon, could not be tied in with the general books, but even in those Standard Cost systems which are tied in with the general books we have at least two types.

We have the Standard Cost System which enters all purchases, etc., into the Inventory at standard, takes out issues at standard, and charges to Work-in-Process at standard; and we have the type which, while setting a standard for purchased material enters it into inventory at actual and charges it out at standard. But we are ahead of our story, and will deal with this phase a little later.

First, let us see how Standard Costs are established:

### **MATERIAL.**

Standard costs are set up for materials to be purchased, based upon either the present or expected price of the material over a period, let us say the matter is simply one of arriving at the standard cost of the amount or quantity of such material used per unit of production, including waste, the matter is simply one of arriving at the standard cost of the amount or quantity of material used per unit on the product to be costed.

### **LABOUR.**

Where piece-work rates are in vogue or some other labour incentive is used, the rates already set become the standard labour costs. Where it is the intention to change them or where they do not exist, some study must be made to determine the standard labour cost per unit or more often per operation, the total standard costs of operations thus becoming the standard labour cost per unit of production.

Even where no piece rates are used or where no incentive system is in vogue, a standard or expected labour cost can be ascertained.

### **OVERHEAD.**

Overhead is a somewhat different matter and two problems are involved in establishing overhead rates on a Standard Basis.

1. The pre-determination or estimate of the production for the period, and
2. The pre-determination or estimate of the manufacturing expense or overhead to be incurred during that period.

Both these estimates are more readily determined by a form of budgetary control which is essential if the matter of overhead is to be properly estimated and controlled.

An estimate or budget of the production required for the period is usually made up by the Sales Department in conjunction with the Plant Manager or his representative, and should be drawn up by classes of product and, if at all possible, by monthly periods.

There are certain items of overhead which are fixed and which are easily ascertained, such as Rent or Taxes, Insurance, etc., but such items as Factory Supplies, Heat, Light and Power, Indirect Labour and Indirect Material bear a definite relation to production, and can only be estimated when the Production Budget has been determined.

Once these two budgets have been prepared it can be ascertained the number of either man hours, machine hours, or Productive Labour Cost which

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will be necessary to cover the production budgeted, depending upon the method to be used.

When this information has been collected the figure is divided into the total manufacturing expense budgeted and the answer is the Overhead Rate to be used.

### VARIANCES.

The difference between the Standard and the actual rates is shown by Variances from Standard and are illustrated as follows:

#### Material Variance.

There are different methods of showing Material Variances, but the one method which seems to over-rule all objections is that of charging material into inventory at Actual Cost and when issued to Work-in-Process, charging it out at Standard, the difference going to the Material Variance Account. By this method only variances from standard in the quantity of material used in a given month is charged to Material Variance during that month. And, of course, the inventory values so far as Raw Materials or Purchased Parts are kept at actual.

Another method is to charge into Inventories at Standard all Raw Materials and Purchased Parts and to charge them out to Work-in-Process of course at the same figure. Thus when Purchased Materials and Parts are received, the Variance from Standard is charged to the Material Variance Account and by this method one is apt to find huge variances in one month and little in another. This, of course, can be controlled by a budget, but the former method seems to be the best.

#### Labour Variance.

Where a Piece Rate system is used there is little chance of variance except when rates are changed or when for some reason or other an operation is performed on day work but when straight day work is the order of payment there are constant variances.

Such variances are taken care of as they arise, usually by marking on the time card the variance from standard and recording same each day. The total is then charged to Labour Variance Account at the end of the month.

#### Overhead Variance.

The Variance from Standard so far as Overhead is concerned is a result of time used in excess of standard or because the number of standard productive hours differ from the actual number of hours employed or, in the case of a percentage of labour cost method of allocating overhead, the total productive labour cost for the month differs from the standard.

This variance can be recorded in various ways. It can be recorded by jobs or products or in total, depending to a large extent as to whether or not it is desired to show the actual cost against the standard by jobs or products accurately.

In any event the sum total is posted to the Burden Variance Account.

The postings to these Variance Accounts are charged either to Cost of Sales or direct to Profit and Loss and the Standard Cost as set remains the cost to be used in the general books.

In other words we debit Stores with goods manufactured and delivered to stores at standard and we credit Work-in-Process also at standard.

I do not propose to deal with the matter of budgets. This is a separate

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story in itself, but it is sufficient to say that budgets and standard costs are inseparable; one cannot work efficiently without the other.

Coming back to the question of variances. The chief value of standards is that:

1. They are simple and enable the Cost Accountant to get out comparatively simple reports very quickly.
2. The Variance Accounts reflect the efficiency or lack of efficiency of the Organization.

A heavy debit to the Material Variance Account may reflect on the Purchasing Department while similarly in regard to Labour and Overhead Variances, they reflect on the Plant Management, or perhaps on the Cost Department, because if the Standards set are not correct then there will be variances.

Standard Costs are not by any means complex, but they do necessitate some hard thinking before such a system is installed.

For instance, where no two jobs are alike, Current Standard Costs are of no value, for obviously the product manufactured must be of a standard nature before standard costs are of value.

Standard Costs have been installed in many cases where they never should have been and, as a consequence, it is possible to hear some people say that Standard Costs are useless. That is not my opinion. I believe that where Standard Costs can be applied, they should be.

They save a lot of work and show the efficiency of the plant, which is what management desires to know most of all.

Standard Costs show the trend of events in the plant, and moreover show it quickly.

Let me say, however, that Standard Costs do not constitute a cure-all for all the ills of Cost Accounting, but, properly applied where necessary, they can be and are of inestimable value to management.

Perhaps you will by this time have guessed that I am a Standard Cost enthusiast, which is quite true; but it was not always true. I had to be shown, and, having graduated through the hard school of experience, I know that Standard Costs cannot be applied universally to every industry and every product.

I believe that I have said enough to show what Standard Costs are, what they mean, and how they are arrived at. Certainly many points have been left uncovered, and perhaps these can be covered in the discussion period.

Standard Costs have done much to increase the prestige of the profession of Cost Accounting. They have brought out the fact that Cost Accounting can be a very definite aid to management; the rest is up to you.

If I may be permitted, as one who has been in the game for a long time, to give a little advice to the younger members present, it is this:

Cost Accounting has no room for the idler, the slacker or the theorist. Cost Accounting necessitates a lot of digging for reliable information. Get out in the plant and see the operations performed, if possible perform them yourself. Take nothing for granted, but investigate and investigate particularly and most thoroughly any new angle to Cost Accounting.



## NEW MEMBERS

Then, sure of your ground, go ahead. There is plenty of room in the Cost Accounting profession for those with initiative and knowledge. Be sure, be practical and be swift, for speed means a lot to executives.

Cost Accounting is coming into its own at long last. Make sure that you are a worthy member of that profession.

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## New Members

### Montreal Chapter.

Val Giuliani, Consolidated Paper Corp., Port Alfred, Quebec.

C. A. Deroches, Crawley & McCracken Ltd., Montreal.

C. G. Richstone, Richstone Bakery Ltd., Montreal.

### Toronto Chapter.

J. Kearsley, Prest-o-Lite Storage Battery Co. Ltd., Toronto.

R. S. McClintock, International Metal Industries Ltd., Toronto.

L. A. Lynd, Lever Brothers Ltd., Toronto.

A. E. Racicot, Higgins & Burk Ltd., Toronto.

R. E. L. Johnson, Stevenson & Kellogg Ltd., Toronto.

J. H. Reid, Standard Paving & Materials Ltd., Toronto.

I. Beckerman, W. Eisenberg & Co., Toronto.

M. Goldhar, A. N. Miller & Co., Toronto.

R. L. B. Joynt, Canadian Kodak Co. Ltd., Toronto.

M. M. Salem, M. M. Salem & Co., Toronto.

### Hamilton Chapter.

J. Kaufman, Brown, Boggs & Co. Ltd., Hamilton.

### London Chapter.

James A. Watt, Coleman Packing Co. Ltd., London.

K. W. Totten, Taylor Electric Mfg. Co. Ltd., London.

### Windsor Chapter.

J. W. Ayerst, Backsatt Standard Co. Ltd., Windsor.

### Kitchener Chapter.

Frank A. Mabey, Galt Art Metal Co. Ltd., Galt.

### Non-Resident.

G. Irvine Thomson, Beitch Gold Mines Ltd., Beardmore, Ontario.

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## Changes of Address

From time to time we encounter considerable trouble because of the change of address by members and concerning which we have not been notified.

We would urge all members to immediately notify Head Office when any such change is made.

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## Literature Received

### Production Control.

The Accountant, January 24th, 1942.

A short but interesting article from the pen of Professor J. H. Jones. Suggestions for the Credit Department.

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Business Management, February.

A splendid article by R. B. Taylor, C.A., which gives many valuable suggestions for the Credit Man.

### **Trends in Accepted Accounting and Their Relation to Cost Accounting.**

N.A.C.A., February 15th.

Deals with the new developments in the Accounting field in recent years and shows why it is necessary to view such changes in relation to their possible effect on Cost Accounting.

### **Figures for Management.**

N.A.C.A., February 15th.

A short but very valuable article dealing with the problems of Cost Control.

### **Principles Involved in a System of Central Accounts for the U.S. Government.**

N.A.C.A., March 1st.

Gives details of the very real progress being made in improving the Accounting methods of the United States Government.

### **Determination of Old Costs.**

Journal of Accountancy, March.

This article discusses the meaning of the term "original cost," reasons why its determination is necessary, and the difficulties of arriving at an accurate figure.

### **Accelerated Depreciation.**

N.A.C.A., March 15th.

### **The Nature of Cost and its Uses.**

N.A.C.A., March 15th.

Two extremely valuable articles which should be of interest to all Cost and Industrial Accountants.

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## Situation Wanted

Married man, age forty-five, with a long experience in Cost and Industrial Accounting, desires position. Has experience as Secretary-Treasurer as well as Chief Accountant and Cost Accountant. Now resident in Montreal vicinity but is anxious for position of authority in any locality. Apply Box 75, "Cost and Management."

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## "Greater Love Hath No Man"

It is with extreme regret that we learn that Pilot Officer Charles D. Hewson of the Royal Canadian Air Force, previously posted as missing after an operational flight over Germany, has now been, for official purposes, presumed dead. Pilot Officer Hewson was posted as missing in August last and while hopes had been held out that perhaps he had been captured, such hopes have gradually dwindled and have now vanished. Charlie Hewson was a student member of Hamilton and Niagara Chapters and, like most young men of spirit, he saw his duty early and rallied to the cause. He graduated from Rivers, Manitoba, as an observer and was immediately granted his commission. We well remember the day he came to head office to say good-bye, and he said it with a cheery wave of the hand and a "so

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long." It is difficult indeed to realize that we shall see him no more. Charlie Hewson was of a type which this, or any other country, can ill afford to lose. So far as we know he is the first member of our Society to die in this war in the service of his country, and to his sorrowing wife, now in Guelph, and to his mother in England, we send our deepest sympathy, but we would ask them and those who knew Charlie Hewson well, as we did, to remember that "Greater love hath no man than this, that he lay down his life for his friends."

Another valued member of our Society and of the Montreal Chapter has passed away in the person of Mr. H. F. Glass. While he had not been particularly active in the affairs of the Society during the past few years, he was nevertheless a valuable member, and he will be sadly missed by many members. To his sorrowing wife and family, the Society generally extends its deepest sympathy.

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## Administration of Price Control

By A. MAXWELL HENDERSON, C.A.

Assistant to the Chairman, Wartime Prices and Trade Board

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The Wartime Prices and Trade Board was established by Order-in-Council P.C. 2516 under the War Measures Act on September 3, 1939 to provide safe-guards under war conditions against any undue enhancement in the prices of food, fuel and other necessities of life and to ensure an adequate supply and equitable distribution of such commodities. Until the introduction of the overall price ceiling on December 1st last year, its policy of price control had been limited. It had dealt with specific problems in certain industries through administrators in charge of such commodities as wool, sugar, hides and leather, coal, rents and oils. While its efforts to ensure the supply of these commodities were successful, such efforts only constituted "piecemeal" or "selective" control.

As prices rose rapidly in 1941, the need for extending the power and authority of the Board became apparent. The choice lay between "selective" control or "overall" control. A procedure for the control of prices that has gained considerable support in recent years is the establishment of an overall price ceiling. The broad principle is to freeze all prices in the national pattern at their levels prevailing in a given period so that transactions at higher prices are either prohibited or within governmental control.

In the House of Commons on November 6th last year, Honourable J. L. Ilsley gave six reasons why the overall price ceiling was preferable to selective price control. These reasons were:

1. The general ceiling could be most quickly applied.
2. The general price ceiling is non-discriminatory.
3. In spite of appearances to the contrary, a general price ceiling involves fewer and less difficult administrative problems.
4. The selective approach would require a thorough investigation of individual industries or commodities and the arbitrary fixing of prices for these individual products, while the ceiling method, subject

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to minor adjustments from time to time accepts the relationship between the prices of various commodities and services determined by supply and demand in the basic period.

5. The general ceiling on prices is the only method of price control which makes it possible to justify stabilization of wages and many other payments such as the payment of pensions, dependents' allowances, and so forth.
6. The piecemeal method of selective control would not prevent the inflationary spiral from developing.

The importance of preventing inflation in wartime is fundamental since the basic source of this evil is the existence of wartime shortages which start a cumulative process of price increase. As these prices gain momentum, the rush to convert savings and weekly wages into tangible commodities accelerates the upward spiralling of the price cycle. The consumer's purchasing power cannot keep pace with such prices. The wage earner's weekly labour becomes decreasingly productive of the necessities to sustain the life of himself and his family. Chartered accountants are so intimately acquainted with business administration that reference need only be made at this point to the effects on the manufacturer, the wholesaler and the retailer of such an upward spiralling of prices. Likewise, it is unnecessary to describe the disaster which will follow in the wake of the inevitable collapse of the inflated price structure. Even those individuals and businesses which might temporarily profit out of inflation would find their profits, except in the case of the most skilful speculators, swept away in the aftermath of war.

One obvious problem in applying an overall ceiling to prices was the "time lag" which normally occurs in distribution of goods from producer and manufacturer through secondary manufacturers and wholesalers to the retail store. In determining that the retail ceiling, as established by prices which prevailed during the basic period, i.e., the four weeks from September 15th to October 11th, 1941, had to be held at all costs, the Government and the Board made a vital and far reaching decision. With price increases beginning as they do at the source of supply, i.e., with the primary producer, it followed that during the basic period many of the manufacturers, secondary manufacturers, wholesalers and retailers in all sections of Canadian trade and industry had not reflected the increased inventory replacement costs in their basic period selling prices. Whether competition determines selling prices or not, they are to a wide extent based on laid-down cost or inventory carrying value rather than replacement cost. Consequently, the Board's decision to maintain the retail ceiling produced what has become known as the "squeeze".

From various quarters there was a proposal that a "progressive" ceiling should be applied in easy stages, starting with the manufacturer. Discussing this proposal on November 21st last, Mr. Donald Gordon, Chairman of the Board, stated:

"One such proposal — made with undoubted sincerity and good intention — has been that we apply the brakes gradually, and allow retail prices to rise because, as we well realize, the cost of replacing goods on the retailers' shelves has risen considerably over the past few months.

"This proposal has been thoroughly examined and I wish to emphasize and underline as strongly as I can that such an approach has been completely

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rejected by the Government and by the Board. It has been rejected because we know that it would mean losing the battle before it has even started. Such an approach would obviously result in increased retail prices. Increased prices would mean increased cost of living. This in turn would bring higher wages and salaries in the chase to catch up and so the vicious circle of inflation would be under way again.

"Rather than allow retail prices to rise, the prices of wholesalers and manufacturers must be reduced. In any unbalanced structure of prices and costs, adjustments must be financed primarily by the business group concerned, not by consumer nor by labour."

The objective is to adjust the "squeeze" in each industrial field back from the retailers, with each agency of production and distribution absorbing its fair share of the "squeeze," but no more than its fair share. The farther it can be pushed back the smaller it becomes and consequently the easier it is to handle because fewer businesses are involved. Many adjustments of this type have already been made by the various sections of trade and industry themselves. It has been largely a question of determining the difference between costs on which basic period selling prices were established and replacement costs which prevailed during the same period. The increase of "squeeze" is then weighed against the ability of the industry as a whole to take it or a portion of it. Close attention is being paid to the elimination of expense production and merchandising practices. While it has no desire to disturb these so long as the retail or consumer ceiling holds, the Board takes the view that such practices have no place in a wartime economy if their continued existence jeopardizes the maintenance of the price ceiling or of the supply of consumer goods.

The carrying out of this programme on the home front is in the hands of administrators appointed to handle each field in trade and industry. Most of these men are serving without remuneration. They are, for the most part, leaders in their field, intimately acquainted with the problems facing them and talking the same "language" as executives in the industrial fields. Through them, the Board is bringing about fair adjustments of prices and costs which are enabling the essential businesses of the country to continue to serve the public with a minimum of loss and dislocation.

The success of this programme is dependent upon a very complete understanding of its job by the Board on the one hand and a widespread understanding of the principles involved by business executives throughout the country on the other. In the short space of time that its organization has expanded to handle this programme, it has not been possible to deal with everyone's problem. Likewise, it has not been possible to issue a book of rulings in which each person can find the solution of his problem. It has not been possible at this date, from an organization standpoint, to issue a chart in sufficiently comprehensive form so that each business executive knows to whom to address his problem. Attention is currently being given to these guides. In the meantime it has been gratifying to me to note the outstanding way in which business generally is co-operating with the Board in carrying out the principles of price control. The retail price level has been held and the Board is going about the difficult job of helping everyone to live under it.

## COST AND MANAGEMENT

The Board's Statement on Import Policy issued in the Canada Gazette on December 29th clearly sets forth its attitude toward this uncontrollable factor. Its object is to ensure a continued flow of necessary imported goods for sale in Canada under the retail price ceiling. If import prices of such goods rise to a degree which cannot be absorbed by trade and industry, subsidies will be paid through the Commodity Prices Stabilization Corporation. Likewise, duties and taxes on imported goods may be reduced from time to time in such a way as to eliminate the need for subsidies. In its approach to import problems, the Board and the Corporation will have the assistance of all the administrators in their respective fields. This is particularly true in connection with the importation of raw materials for further manufacture in Canada. Finished goods will necessarily be subsidized, generally speaking, on the basis of actual costs. Raw materials will be dealt with under special procedures. Subsidy assistance will be paid where such assistance is really needed and providing due regard is given by importers to prices paid to foreign suppliers. Broadly speaking, wherever similar goods can be obtained in Canada at reasonable prices, no subsidy will be paid unless it is shown that domestic goods are not available in sufficient quantities.

The Board consists of twelve members under the chairmanship of Mr. Donald Gordon. The membership represents a wide cross-section of men in Canadian public life, with business and professional backgrounds, who bring to the Board knowledge and experience in industry, agriculture, foreign trade and the interests of the consumer. The Board operates through its administrators, who are concerned with the affairs of specific industries and the businesses comprising them along the lines already described. In addition to these, all controllers of the Wartime Industries Control Board are, for purposes of price control, administrators of The Wartime Prices and Trade Board. In this way all sections of trade and industry in the Dominion are represented by administrators whose functions are to deal with the economic and supply problems in their own particular industrial fields. All matters of price and supply of goods and services are under their control. In addition to these administrations are ones of a servicing nature covering the field of accounting and economic research, statistics, legal, enforcement and the like.

The Accounting Administration is carrying out its part in this extensive programme. As a separate division, it is responsible only to the Board and thus ranks equally with the other Administrations. In actual practice it can be regarded as a service department or fact-finding body on the accounting and financial aspects of the administrators' problems in their respective industries and the corporations comprising them.

In approaching this work the Accounting Administration has recruited the services of a number of experienced accountants, most of whom have come from industrial companies. They are men with sound accounting background and practical business training. They have come from many diversified industries. Thus each one brings to his work an Accounting knowledge gained in many of the industries represented by the administrators, who themselves have come from industry to do a war job under much the same circumstances.

It is important to give the reader a clear understanding of the scope of the Accounting Administration's work in relation to that of the various administrators. As already explained, these men and their staffs are respons-

## ADMINISTRATION OF PRICE CONTROL

ible to the Board for the handling of the economic problems arising in their respective fields as a result of the impact of price control. The only basis upon which these problems can be judged and their solutions determined is in the light of the relevant facts. The Accounting Administration has been charged with the responsibility of establishing the facts. Therefore, it is fundamental that the Administration have a clear understanding of the problem and the ability to present the facts in a concise and accurate manner to the Board. Only on this basis can sound judgment be formed and an effective solution found.

Many of these problems relate back to what may be termed the technical aspects of manufacturing and distributing. Such aspects embrace the physical business components, the practices and policies of business enterprises, trade practices, etc. While they are reflected in the accounting summarization of the results of a business enterprise and thus are susceptible to analysis by the Accounting Administration, the technique of evaluating them as factors in a problem and of determining a solution which is logical and practical requires a background of training and experience which is different from that of an accountant. Consequently, to inject into the work of the Board this other point of view on a common problem, an industrial engineering section is being created by the Board. It is a parallel organization to the Accounting Administration and is being staffed with industrial engineers and men with administrative experience in manufacturing and distribution.

It is not the function of these divisions of the Board to show companies how to make profits, but rather to satisfy the Board whether, by appropriate changes in method, they can stay within the price ceiling without assistance from the Government. Their suggestions are available not only to the Board's administrators, but also in collaboration with the administrators to business management itself.

In this work it is the earnest desire of the Board to avoid making any widespread demands on business for accounting information. The Board does not, at this stage, contemplate the need for any periodical reporting or other extensive accounting work which will make the clerical situation facing business management to-day any harder than it is. The Accounting Administration is utilizing, wherever possible, the services of other government departments, fact-finding agencies and the like. It wants to employ the smallest staff it can consistent with its job, and to avoid all duplication and over-lapping of effort to the maximum extent. Its procedural approach to the accounting aspects of the price ceiling programme is that, since the onus, generally speaking, is on business to prove its own case, it is securing the facts along the simplest and most uniform lines it can devise in order to assist in producing the desired results with a minimum of delay and inconvenience to all concerned. There will, of course, be many cases where more comprehensive data is required. It does not contemplate auditing such submissions at this stage. If verification along these lines is necessary, as it will be in some cases, the Board would consider it preferable that such verification be by certificate of the company's own auditors. It is recognized that the company's own auditors are in a position to prepare a report more accurately and in a shorter space of time than any group of governmental auditors who would be initially unfamiliar with the company's books and internal practices.

In securing information along these lines and working with the various

## COST AND MANAGEMENT

administrators, it is important to note that the source of the facts is treated by the Accounting Administration as private and confidential. In every case where data requiring this treatment is secured, the procedure is for the Accounting Administration itself to contact the companies in the industrial field concerned, but the facts developed from the information are not discussed with the administrators until all identification of source has been removed. The information by companies usually is coded and presented in summarized form to the administrators. This approach has been developed by the Board with the co-operation of the administrators who are concerned only with the broad picture for the industry as a whole.

It is a high tribute to the accounting profession in Canada to receive an assignment of this kind and the Accounting Administration is endeavouring to do the best job possible. The staff is putting in long and arduous hours of study and preparation. The work is essentially of a different character from that of other established Boards. We are not administering a law for dealing with a specific commodity, auditing individual companies' books or following a long established procedure — we are being asked to get the facts from the many industrial fields ranging across the country as their problems arise and to interpret the facts to help business management help itself under price control.

Ottawa, January 17th, 1942.

## Problems and Solutions

In order that Students who intend to write the examinations of the Society late in the present month, may be to some extent guided, we publish below a number of problems and solutions in connection with the Fundamentals and Advanced Cost Accounting. For these we are indebted to Donald R. Patton, C.A., of Montreal, the Immediate Past President of our Society and who has consistently taken such a keen interest in student education. These problems and solutions are not intended only to assist students except insofar as they reflect the type of problems which are often set in connection with examinations.

### FUNDAMENTALS OF COST ACCOUNTING PROBLEMS

The Trial Balance of the Kenrick Corporation on April 1st, 1938 was as follows:—

Cash on hand and in bank .....	\$ 5,400.00	
Accounts receivable .....	26,130.00	
Stores .....	6,260.00	
Work in process .....	5,380.00	
Finished goods .....	7,040.00	
Plant and machinery .....	36,000.00	
Accounts payable .....		\$23,360.00
Accrued payroll .....		400.00
Reserve for depreciation of plant and machinery .....		14,860.00
Reserve for bad debts. ....		2,190.00
Capital Stock .....		40,000.00
Surplus .....		5,400.00
	\$86,210.00	\$86,210.00



## PROBLEMS AND SOLUTIONS

During the month of April the following transactions took place:—

(a) Materials purchased for stores .....	\$ 3,100.00
(b) Materials issued from stores—Direct .....	4,620.00
—Indirect .....	1,190.00
(c) Material returned to supplier from stores .....	210.00
(d) Total payroll for month—Direct .....	6,890.00
—Indirect .....	540.00
(e) Wages paid during month .....	7,500.00
(f) Sundry manufacturing expense incurred during month ....	1,830.00
(g) Selling and administrative expense incurred during month	4,870.00
(h) Applied selling and administrative expense was charged during the month at the rate of 20% of sales.	
(i) Accounts receivable collected .....	16,300.00
(j) Accounts payable paid .....	9,100.00
(k) Depreciation to be provided for the month on plant and machinery at the rate of 10% p.a.	
(l) Spoiled work costing \$289.00 scrapped with a scrap value of .....	24.00
(m) Manufacturing expense applied to production .....	3,990.00
(n) Work-in-process inventory April 30th after adjustment for manufacturing expense (see note) .....	4,500.00
The balance of work has been completed and transferred to finished goods.	
(o) Cost of finished goods sold during the period .....	18,000.00
Sales were made at a mark-up of 30% over cost as above.	

### Required:

- (a) General Ledger Entries in journal form for each transaction above. Letter the entries to correspond to the transactions.
- (b) Manufacturing, Trading and Profit and Loss Statements for the month of April and Balance Sheet as at April 30th.

**Note:** Under or Over-applied Mfg. Expense is to be adjusted in total on the Manufacturing Statement before finding Cost of Goods Manufactured.

## DISTRIBUTION OF FACTORY OVERHEAD

The Barwick Bolt and Nut Company's plant is divided into three service departments: (1) Power House, (2) Stores, (3) General (including Factory Office, Hospital, etc); and four productive departments: (4) Forging, (5) Threading, (6) Case-hardening and (7) Finishing.

Total material for the month of March was issued from Stores to Productive Department No. 4.

You are given the following particulars:

## COST AND MANAGEMENT

Department	Sq. Ft. of Floor Space Occupied	No. of 100 Watt Lamps Used	% of Horse Stock for Period	Power Used Valuation of	Mach'y & Equip. Direct Depart.	mental Expenses Avg. Inventory of
1. Power House .....	7,000	25		51,600	438	
2. Stores .....	6,000	10		2,800	65	18,000
3. General .....	10,000	22		3,300	140	
4. Forging .....	20,000	45	40	62,700	345	
5. Threading .....	15,000	32	20	41,000	640	
6. Case-hardening .....	10,000	20	25	56,200	122	
7. Finishing .....	12,000	26	15	22,400	310	

(a) Charges for March were:

Indirect Labour (in various productive depts). .....	\$ 2,060.00
Rent .....	1,200.00
Light .....	360.00
Coal (Power House) .....	405.00
Insurance on equipment and stock .....	258.00
Unallocated sundry expense supplies, etc. ....	180.00

(b) The reports of Direct Labour for March gave the following totals for the productive departments:

4. Forging .....	\$1,852.00	3,010 hours
5. Threading .....	1,720.00	3,860 hours
6. Case-hardening .....	1,160.00	2,840 hours
7. Finishing .....	1,448.00	3,120 hours

(c) Labour chargeable to the service departments amounted to:

1. Power House .....	\$ 488.00
2. Stores .....	372.00
3. General .....	1,280.00

(d) Depreciation of equipment is to be charged at the rate of 10% per annum.

(e) The "Unallocated Sundry Expense" covers general charges to the productive departments of the factory. It is allocated to these departments after all other expenses have been applied, but before distribution is made to the productive departments for the charge of the service departments.

(f) It was estimated that power house expense should be divided 30% for heating, and 70% for power.

(g) Expenses charged to the "General" department were to be distributed over the productive departments in an arbitrary ratio as follows:

Dept. No. 4 — 35% No. 5 — 30% No. 6 — 15% No. 7 — 20%

(h) The cost of stock issued from the stores department for March was \$10,400.00 The cost of the stores department is distributed to the departments concerned on the basis of stock issued.

(i) Find (1) the total overhead charged to each production department for the month of March and (2) the charge for factory overhead in each department per productive labour hour.

### ADVANCED COST ACCOUNTING PROBLEMS

1. The Bowden Production Co. manufactures a specialty, of which the estimated cost per article was:

## PROBLEMS AND SOLUTIONS

Material .....	\$2.20
Labour .....	2.00
Manufacturing Expense .....	.80
	\$5.00

During the year 12,000 of these articles were produced. Charges for the year were as follows: Direct Materials \$24,000.00, Direct Labour \$28,800.00, and Manufacturing Expense \$13,200.00.

There were no inventories of Work-in-process at the end of the year. Sales for the year consisted of 9,600 of these articles.

- (a) Give the journal entries necessary to transfer the actual cost of each element to work-in-process and to record the estimated cost of goods finished and of goods sold.
- (b) Give the necessary adjusting entries.
- (c) State what adjustments of the estimated cost are necessary to correct it to actual cost.

## STANDARD COSTS

### THE INTERPROVINCIAL MANUFACTURING CO., LTD.

The Interprovincial Manufacturing Co. Ltd. manufactures a single product which is composed of three parts known as Part X, Part Y and Part Z. Parts X and Y are manufactured in the Company's plant and Part Z is purchased ready for assembly. Part X is manufactured in Dept. 1, Part Y in Dept. 2 and the three parts are assembled into the finished product in Dept. 3.

The Standard Cost system used by the Interprovincial Mfg. Co. Ltd. is interlocked with the general accounting system. Standard Costs are debited and credited to Stores and Work-in-Process Accounts, and the differences are carried directly to Variance Accounts. One Work-in-Process Account is carried for each department.

The budget and schedule of Standard Costs for the month of January have been prepared as follows:

#### Interprovincial Manufacturing Co. Ltd. — Budget and Schedule of Standard Costs for Month of January

	Standard Price	Budgeted Number of Units and Actual Sales	Amount
Sales .....	\$20.00	12,000	\$240,000.00
Cost of Goods (Based on 12,000 units)			
(1) Part X—			
Direct Material .....	\$ 2.002		
Direct Labour .....	1.00		
Mfg. Expense (total applicable to Dept. 1: \$7,200.00) ....	.60		
	3.602	12,000	43,224.00
(2) Part Y—			
Direct Material .....	3.003		
Direct Labour .....	2.00		
Mfg. Expense (total applicable to Dept. 2: \$9,600.00) ....	.80		
	5.803	12,000	69,636.00

# COST AND MANAGEMENT

## (3) Assembly Cost—

Part Z .....	.50			
Direct Labour .....	.60			
Mfg. Expense (total applicable to Dept. 3: \$4,800.00) ....	.40	1.50	12,000	18,000.00
		<u>\$10,905</u>	<u>12,000</u>	<u>\$130,860.00</u>
Gross Profit .....				\$109,140.00
Selling and Administrative Expense .....				60,000.00
Net Profit .....				<u>\$ 49,140.00</u>

The Inventories on January 1st were as follows:

Stores .....	\$200,000.00
Finished Parts: X — 6,000 at \$3.602 .....	21,612.00
Finished Parts: Y — 6,000 at 5.803 .....	34,818.00
Finished Goods: 4,000 at 10.905 .....	43,620.00
Total .....	<u>\$300,050.00</u>

No Inventories of Work-in-Process are on hand Jan. 1st nor on Jan. 31st.

The following are the total transactions for the month:

## (a) Purchases:

Actual Price .....	\$54,000.00
Standard Price .....	52,000.00

## (b) Requisition of Direct Materials from Stores (at Standard Price):

Dept. 1 .....	\$20,500.00
Dept. 2 .....	24,300.00
Dept. 3 (Part Z) .....	5,000.00

\$49,800.00

## (c) Factory Pay Roll:

Direct Labour, Dept. 1 .....	\$10,200.00
Direct Labour, Dept. 2 .....	16,320.00
Direct Labour, Dept. 3 .....	6,400.00
Indirect Labour .....	10,000.00

\$42,920.00

(d) Manufacturing Expense, excluding Indirect Labour .....\$11,800.00

## (e) Production:

Part X .....	10,000 units
Part Y .....	8,000 units
Finished Goods .....	10,000 units

(f) Selling and Administrative Expense .....\$58,000.00

1. Prepare journal entries giving effect to the foregoing transactions, and providing accounts to show variances from standards in respect to the following:

(a) Material — Price.

(b) Material — Quantity.

## PROBLEMS AND SOLUTIONS

- (c) Direct Labour.
  - (d) Burden — Under-absorbed.
  - (e) Burden — Expense (comparison between actual and standard burden at present level).
  - (f) Selling and Administrative Expense.
2. Post the entries to Ledger Accounts.
  3. Prepare Profit and Loss Statement, showing variances from standards.

### FUNDAMENTALS OF COST ACCOUNTING — SOLUTIONS

2. The Kenrick Corporation — Journal Entries (1):
 

(a) Stores .....	\$ 3,100.00	
Accounts payable .....		\$ 3,100.00
(b) Work-in-process .....	4,620.00	
Manufacturing expense .....	1,190.00	
Stores .....		5,810.00
(c) Accounts payable .....	210.00	
Stores .....		210.00
(d) Work-in-process .....	6,890.00	
Manufacturing expense .....	540.00	
Accrued payroll .....		7,430.00
(e) Accrued payroll .....	7,500.00	
Cash .....		7,500.00
(f) Manufacturing expense .....	1,830.00	
Accounts payable .....		1,830.00
(g) Selling and administrative expense .....	4,870.00	
Accounts payable .....		4,870.00
(h) Selling and administrative expense charged to cost .....	4,680.00	
Applied selling and administrative expense 10% of sales of .....		4,680.00
(i) Cash .....	16,300.00	
Accounts receivable .....		16,300.00
(j) Accounts payable .....	9,100.00	
Cash .....		9,100.00
(k) Manufacturing expense .....	300.00	
Reserve for depreciation of plant and machinery .....		300.00
Month at 10% p.a. on 36,000 .....		
(l) Stores .....	24.00	
Manufacturing expense .....	265.00	
Work-in-process .....		289.00
(m) Work-in-process .....	3,990.00	
Applied mfg. expenses .....		3,990.00
(n) Finished goods .....	16,226.00	
Work-in-process .....		16,226.00
(\$20,591.00 — 4,500) .....		
(o) Cost of goods sold .....	18,000.00	
Finished goods .....		18,000.00
Accounts receivable .....	23,400.00	
Sales .....		23,400.00
18,000 plus 30% (5,400.00) .....		

## COST AND MANAGEMENT

### MANUFACTURING STATEMENT FOR MONTH OF APRIL, 1938

The Kenrick Corporation:	
To Inventory Work-in-process as at April 1st	\$ 5,380.00
Direct Materials:	
Inventory Stores, as at April 1st .....	\$ 6,260.00
Purchases .....	\$ 3,100.00
Less: Material returned to suppliers .....	210.00
	\$ 2,890.00
Plus: Spoiled work transferred to stores	24.00
	2,914.00
	\$ 9,174.00
Less: Inventory stores, as at April 30th .....	\$ 3,364.00
Materials issued .....	\$ 5,810.00
Less: Indirect materials issued .....	1,190.00
Direct Materials .....	\$ 4,620.00
Direct Labour:	
Total payroll for month .....	\$ 7,430.00
Less: Indirect labour .....	540.00
Direct Labour .....	\$ 6,890.00
Manufacturing Expense:	
Mfg. expense applied to production .....	\$ 3,990.00
Plus: Under-applied mfg. expense .....	135.00
	4,125.00
	\$21,015.00
Less: Credit for spoiled work .....	289.00
	\$20,726.00
Less: Inventory work-in-process as at April 30th .....	4,500.00
Cost of goods manufactured during month .....	\$16,226.00

The Kenrick Corporation:

### TRADING AND PROFIT AND LOSS STATEMENT FOR MONTH OF APRIL, 1938

By sales .....	\$23,400.00
To Inventory finished goods as at April 1st ....	\$ 7,040.00
Cost of goods manufactured .....	\$16,226.00
	\$23,266.00
Less: Inventory finished goods as at April 30th .....	5,266.00
Cost of goods sold .....	18,000.00
Gross profit .....	\$ 5,400.00
Applied selling and administrative expense .....	\$ 4,680.00
Plus: Under-applied .....	190.00
	4,870.00
Net profit on operations .....	\$ 530.00

The Kenrick Corporation:

# PROBLEMS AND SOLUTIONS

## BALANCE SHEET AS AT 30th APRIL, 1938

### ASSETS

#### Current:

Cash on hand and in Bank .....	\$ 5,100.00
Accounts receivable .....	\$33,230.00
Less: Reserve for bad debts .....	2,190.00
	<u>31,040.00</u>

#### Inventories:

Raw material .....	\$ 3,364.00
Work-in-process .....	4,500.00
Finished goods .....	5,226.00
	<u>13,130.00</u>

\$49,270.00

#### Fixed:

Plant and machinery .....	\$36,000.00
Less: Reserve for depreciation on P. & M. ....	15,160.00
	<u>20,840.00</u>

\$70,110.00

### LIABILITIES

#### Current:

Accounts payable .....	\$23,850.00
Accrued payroll .....	330.00
	<u>\$24,180.00</u>

#### Net Worth:

Capital Stock .....	\$40,000.00
---------------------	-------------

#### Surplus:

Balance, April 1st, 1938 .....	\$ 5,400.00
Less: Net profit for month of April .....	530.00
	<u>5,930.00</u>
	<u>45,930.00</u>

\$70,110.00

The Kenrick Corporation:

### TRIAL BALANCE — 30th APRIL, 1938

Cash on hand and in bank .....	\$ 5,100.00	
Accounts receivable .....	33,230.00	
Stores .....	3,364.00	
Work-in-process .....	4,365.00	
Finished goods .....	5,266.00	
Plant and machinery .....	36,000.00	
Accounts payable .....		\$ 23,850.00
Accrued payroll .....		330.00
Reserve for depreciation of plant and machinery .....		15,160.00
Reserve for bad debts .....		2,190.00
Capital stock .....		40,000.00
Surplus .....		5,400.00
Manufacturing expense .....	4,125.00	
Applied manufacturing expense .....		3,990.00
Selling and administrative expense .....	4,870.00	

## HANDISET FORMS

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## **EXAMINATIONS**

The regular examinations leading to the Society's Degrees will be held as follows:

**FUNDAMENTALS OF COST ACCOUNTING**

Wednesday, April 22nd.

**INDUSTRIAL MANAGEMENT**

Thursday, April 23rd.

**ADVANCED COST ACCOUNTING**

Monday, April 27th.

**ACCOUNTING**

Wednesday, April 29th.

All times will be from 6 p.m. to 10 p.m.

Examinations will be held in all centres where a sufficient number of candidates apply, and applications must be made on the prescribed form which may be obtained from the office of the Secretary, 600 MacKay Building, 66 King Street East, Hamilton, Ontario.

## COST AND MANAGEMENT

Applied selling and administrative expense .....		4,680.00
Selling and administrative expense charged to cost ....	4,680.00	
Cost of goods sold .....	18,000.00	
Sales .....		23,400.00
	<hr/>	<hr/>
	\$119,000.00	\$119,000.00

4.—

### ADVANCED COST ACCOUNTING SOLUTIONS

#### The Bowden Production Co. — Estimated Costs

(a) Materials-in-process .....	\$ 24,000.00	
Labour-in-process .....	28,800.00	
Manufacturing expense-in-process .....	13,200.00	
Direct material .....		\$ 24,000.00
Direct labour .....		28,800.00
Manufacturing expense (actual cost) .....		13,200.00
Finished Goods .....	60,000.00	
Materials-in-process .....		26,400.00
Labour-in-process .....		24,000.00
Mfg. expense-in-process .....		9,600.00
12,000 units at estimated cost		
Cost of goods sold .....	48,000.00	
Finished goods .....		48,000.00
9,600 articles at estimated cost		
(b) Finished goods .....(2/10)	1,200.00	
Cost of goods sold .....(8/10)	4,800.00	
Materials-in-process .....	2,400.00	
Labour-in-process .....		4,800.00
Manufacturing expense-in-process .....		3,600.00
(c)		
	Estimated	
	Cost	
	Adjustment	
	Ratio	
Material .....	26,400.00	
Labour .....	24,000.00	
Mfg. expense .....	9,600.00	
	2,400 high	
	4,800 low	
	3,600 low	
	1/11 high (deduct)	
	1/5 low (add)	
	3/8 low (add)	
	Unit	Unit
	Estimate	Estimate
	2.20	2.00
	2.00	2.40
	.80	1.10
	<hr/>	<hr/>
	5.00	5.50

5.—

### STANDARD COSTS — THE INTERPROVINCIAL MANUFACTURING CO. LTD. — JOURNAL ENTRIES TO RECORD TRANSACTIONS

(a) Stores .....	\$ 52,000.00	
Material variance — price .....	2,000.00	
Accounts payable .....		\$ 54,000.00
Month's purchases, costing \$54,000.00		
Standard price \$52,000.00		
(b) Work-in-process — Dept. 1 .....	20,020.00	
Work-in-process — Dept. 2 .....	24,024.00	
Work-in-process — Dept. 3 .....	5,000.00	
Material variance — Quantity — Dept. 1 .....	480.00	
Material variance — Quantity — Dept. 2 .....	276.00	
Stores .....		49,800.00

## COST AND MANAGEMENT

Materials requisitioned from Stores:

Standard:

Dept. 1: 10,000 units at 2.002—20,020.00

Dept. 2: 8,000 units at 3.003—24,024.00

Dept. 3: 10,000 units at .50 — 5,000.00

(c) Work-in-process — Dept. 1 .....	10,000.00	
Work-in-process — Dept. 2 .....	16,000.00	
Work-in-process — Dept. 3 .....	6,000.00	
Direct labour variance cost — Dept. 1 .....	200.00	
Direct labour variance cost — Dept. 2 .....	320.00	
Direct labour variance cost — Dept. 3 .....	400.00	
Manufacturing expense .....	10,000.00	
Accrued payroll .....		42,920.00

Factory payroll for month, direct and indirect:

Standard:

(Direct)

Dept. 1: 10,000 units at 1.00—\$10,000.00

Dept. 2: 8,000 units at 2.00— 16,000.00

Dept. 3: 10,000 units at .60— 6,000.00

(d) Manufacturing expense .....	11,800.00	
Accounts payable .....		11,800.00
Mfg. expense incurred for month— Excluding indirect labour.		
Work-in-process — Dept. 1 .....	6,000.00	
Work-in-process — Dept. 2 .....	6,400.00	
Work-in-process — Dept. 3 .....	4,000.00	
Applied mfg. expense .....		16,400.00

Standard:

Dept. 1: 10,000 units at .60 — \$6,000.00

Dept. 2: 8,000 units at .80 — 6,400.00

Dept. 3: 10,000 units at .40 — 4,000.00

Applied mfg. expense .....	16,400.00	
Burden variance, mfg. expense under-applied, Dept. 1 .....	1,200.00	
Burden variance, mfg. expense under-applied, Dept. 2 .....	3,200.00	
Burden variance, mfg. expense under-applied, Dept. 3 .....	800.00	
Burden variance, mfg. expense cost (expense)....	200.00	
Manufacturing expense .....		21,800.00

Factory burden for month

(e) production:

Finished parts — X .....	36,020.00	
Work-in-process — Dept. 1 .....		36,020.00
10,000 Parts X at \$3.602.		
Finished parts — Y .....	46,424.00	
Work-in-process — Dept. 2 .....		46,424.00
8,000 parts at \$5.803.		
Work-in-process — Dept. 3 .....	94,050.00	

# COST AND MANAGEMENT

Finished Parts:	
X — 10,000 parts at 3.602 .....	36,020.00
Y — 10,000 parts at 5.803 .....	58,030.00
Finished goods .....	109,050.00
Work-in-process — Dept. 3 .....	109,050.00
10,000 units at \$10.905.	
Sales:	
Cost of goods sold .....	130,860.00
Finished goods .....	130,860.00
Sales — 12,000 units at cost of \$10.905.	
Accounts receivable .....	240,000.00
Sales .....	240,000.00
Sales — 12,000 units at S.P. of \$20.00.	
(f) Selling and administrative expense: .....	60,000.00
Variance — selling and admin. expense .....	2,000.00
Accounts payable, etc. ....	58,000.00
Standard: 60,000.00 — Variance: \$2,000.00 Cr.	

## THE INTERPROVINCIAL MANUFACTURING CO., LTD. PROFIT AND LOSS STATEMENT FOR MONTH OF JANUARY

Sales — 12,000 units at \$20.00 .....	\$240,000.00
Cost of goods sold:	
Standard cost — 12,000 units at \$10,905 ....	\$130,860.00
Variances:	
Material:	
Price .....	\$2,000.00
Quantity, Dept. 1 ....	\$480.00
Quantity, Dept. 2 ....	276.00
	756.00
Direct Labour (Cost):	
Dept. 1 .....	200.00
Dept. 2 .....	320.00
Dept. 3 .....	400.00
	920.00
Burden underabsorbed:	
Dept. 1 .....	1,200.00
Dept. 2 .....	3,200.00
Dept. 3 .....	800.00
	5,200.00
Mfg. exp. cost (expense) ....	200.00
	9,076.00
Cost of goods sold .....	139,936.00
Gross profit .....	\$100,064.00
Selling and administrative expense:	
Standard: .....	\$ 60,000.00
Variance .....	2,000.00 Cr.
	58,000.00
Net profit for month .....	\$ 42,064.00

# PROBLEMS AND SOLUTIONS

Basis of Distribution			Service Departments		Productive Departments	
BARWICK BOLT AND NUT COMPANY — DISTRIBUTION OF FACTORY OVERHEAD						
Direct Materials (Cost)	Direct to Dept. No. 4	10,400				10,400
Direct Labour	Direct	1,852		1,720	1,160	1,448
Direct Expenses	Direct	345		640	122	310
Service Dept. Labour	Direct to Service Depts	488	372	1,280		
Service Dept. Expenses	Direct to Service Depts	438	65	140		
Indirect Labour	Direct Labour Cost	...	...	...		
Rent	Floor Space	105	90	150	300	225
Light	No. of Lamps	50	20	44	90	64
Coal	Power House Direct	405	...	...	...	...
Insurance on Equip. and Stock	Value of Equip & Stock	52	21	3	63	56
Depreciation on Equip.	Value of Equip.	430	23	27	522	342
						469
(Expenses already applied to Productive Depts.)		1,592		1,245	1,102	924
Unallocated S'dry. exp.	Expenses already applied	32.7%		25.6%	22.7%	19.0%
		59		46	41	34
Total Factory Overhead		1,651	1,968	591	1,291	1,143
(1) Power House, Heat 30% Floor Space		162	590	48	121	81
Power House, power 70% h.p. machines		551	1,378	...	276	344
(2) Stores	Material Issued	639	1,968	639		207
(3) General	Arbitrary	604		1,725	517	259
						345
(a) Total Overhead charged to Productive Depts		3,607		2,205	1,827	1,607
(b) Charge for Overhead per Productive Labour Hour:						
Productive Labour Hours		3,010 Hrs.		3,860 Hrs.	2,840 Hrs.	3,120 Hrs.
Charge per Productive Labour Hour		\$1.198		57.1c	64.3c	51.5c

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